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**Comptroller of the Currency  
Administrator of National Banks**

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**Small Bank**

## **PUBLIC DISCLOSURE**

April 19, 1999

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Community National Bank  
Charter Number 16929**

**5481 St. Croix Trail  
North Branch, Minnesota 55056**

**Office of the Comptroller of the Currency**

**Minneapolis North Field Office  
920 Second Avenue South, Suite 800  
Minneapolis, Minnesota 55402**

**NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Community National Bank** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 19, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C. F. R. § Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**.

The bank's loan-to-deposit ratio is more than reasonable, with the majority of loans originated within its assessment area. Lending to borrowers of different income levels and to businesses with varying revenue sizes is reasonable. The geographic distribution of loans represents a reasonable dispersion throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

Community National Bank (CNB) is a \$32 million institution located in North Branch, Minnesota. The bank does not operate any branches or automated teller machines. The bank's primary focus is residential real estate and commercial lending. CNB has also been active in lending to real estate developers and contractors. As of March 31, 1999, the bank's net loans to total assets ratio was 69%. The bank's loan mix, based on the dollar volume of loans originated since the last CRA examination (1,293 loans totaling \$43 million), consists of 47% commercial and commercial real estate, 33% residential real estate, 11% consumer, and 9% agricultural production and farm real estate loans. The analysis during this evaluation focused on commercial and residential real estate loans. These two categories of loans comprise the largest dollar volume of loans originated by the bank since the last CRA examination.

CNB is 89% owned by A & P Holding Company, a one bank holding company, and 8% owned by Community Investment Services, Incorporated. A & P Holding Company is in turn 95% owned by Community Investment Services, Incorporated.

There are no financial or legal impediments limiting the bank's ability to help meet the credit needs of its assessment area. The bank was rated "Outstanding" at its last CRA examination dated April 18, 1996.

## **DESCRIPTION OF COMMUNITY NATIONAL BANK'S ASSESSMENT AREA**

The city of North Branch is located approximately 50 miles north of the Minneapolis/St. Paul metropolitan area. The bank's assessment area consists of Chisago and Isanti counties, which are part of the Minneapolis/St. Paul Metropolitan Statistical Area (MSA #5120). The Department of Housing and Urban Development's Updated 1998 Median Family Income for this MSA is \$60,800. The median family income for the 13 census tracts in the assessment area ranges between 72% and 89% of the MSA 1990 census median family income. There are six moderate-income census tracts which comprise 46% of the assessment area, while the remaining seven (54%) are middle-income. 1990 Census data indicates that 23% of the assessment area's families are designated as low-income, 26% as moderate-income, 29% as middle-income, and 22% as upper-income. Based on 1990 Census data, the population of the assessment area is approximately 56,000.

The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. There are 11 banks chartered in the bank's assessment area, with asset sizes ranging from \$30 million to \$133 million.

There are also six bank branches, one credit union, and one credit union branch located in the bank's assessment area.

North Branch is dependent upon various manufacturing, retail, and service industries. Many area residents commute to jobs in the Twin Cities metropolitan area. Major employers in the North Branch area include North Branch Schools, Tanger Factory Outlet, and Green Acres County Care Center. The local economy is stable and the average annual unemployment rate in the bank's assessment area is six percent.

As part of this examination, examiners contacted a city official to gain additional information on the community and the bank's performance. Our review of this information revealed that credit needs throughout the assessment area are being met. Additional examiner contacts by other regulatory agencies have identified a need for start-up financing for small businesses.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### ***Loan-to-Deposit Ratio***

The bank's loan-to-deposit ratio is more than reasonable. CNB's quarterly loan-to-deposit ratio since the April 18, 1996 CRA examination has averaged 90%. CNB is the second smallest of the 11 banks chartered in the assessment area, and its average loan-to-deposit ratio is the highest. Loan-to-deposit ratios of other banks in the assessment area ranged from 21% to 85%. The bank also has approximately \$9.5 million in loan participations sold to other financial institutions.

### ***Lending to Borrowers of Different Incomes and to Businesses of Different Sizes***

The bank has a reasonable penetration of lending to low- and moderate-income borrowers. Examiner sampled 27 home purchase loans originated between May 1997 and March 1999. The sample represented 9% by number and 16% by dollar volume of the residential real estate loans originated during this time frame. Based on this sample, 44% by number and 38% by dollar amount of residential real estate loans were originated to low- or moderate-income borrowers. Forty-nine percent of the assessment area's population is low- or moderate-income. The chart on the next page depicts the percentage of loans to borrowers, by income categories of borrowers, compared to the income level of families located in the bank's assessment area:

<b>Residential Real Estate Loan Distribution by Borrower Income</b>					
<b>Income Level</b>	<b>Number</b>	<b>As a % of #</b>	<b>Dollar (thousands)</b>	<b>As a % of \$</b>	<b>Assessment Area Demographics</b>
<b>Low</b>	6	22%	\$455	20%	23%
<b>Moderate</b>	6	22%	\$427	18%	26%
<b>Middle</b>	13	48%	\$1,215	52%	29%
<b>Upper</b>	2	8%	\$228	10%	22%
<b>Total</b>	27	100%	\$2,325	100%	100%

CNB has a reasonable dispersion of loans to businesses of different revenue sizes in the assessment area. Examiners sampled 24 commercial loans that were originated since the April 18, 1996 CRA examination. The sample represented 6% by number and 9% by dollar volume of these types of loans originated during this time frame. The results of the sample, shown in the table below, reveals that the bank extended 75% (by number) of its commercial loans to borrowers with annual revenues less than one million dollars. Per 1998 Dunn and Bradstreet reports, 93% of the commercial businesses in the assessment area reporting annual revenue data had revenues less than one million dollars.

<b>Loan Distribution by Business Revenue Levels</b>				
<b>Annual Revenues</b>	<b>Number of Loans</b>	<b>As a % of #</b>	<b>Dollar of Loans (000s)</b>	<b>As a % of \$</b>
Less than \$100,000	7	29%	\$718	38%
\$100,000 to \$250,000	2	8%	\$183	10%
\$250,000 to \$500,000	2	8%	\$121	6%
\$500,000 to \$1,000,000	7	30%	\$387	20%
Greater than \$1,000,000	6	25%	\$501	26%
Total	24	100%	\$1,910	100%

### ***Lending in Assessment Area***

The bank originates a majority of its loans to borrowers located within its assessment area. Examiners reviewed a sample of loans originated since the last CRA examination to determine the volume of lending done by CNB in its assessment area. The sample of 31 residential real estate loans totaling \$2.8 million (11% and 20% of the total number and dollar amount of residential real estate loans, respectively), revealed that 87% by number and 83% by dollar volume were originated within the assessment area.

By number, CNB originates a majority of its commercial loans to borrowers located within its assessment area. A sample of 42 commercial borrowers with loans totaling \$5.2 million (11% and 25% of the total number of commercial borrowers and dollars of commercial loans, respectively) revealed that 64% of loans by number and 44% by dollar were originated within the assessment area. Examiners focused on the number of loans rather than the dollar volume of lending because of the number of small businesses within the assessment area. As noted in the *Lending to Borrowers of Different Incomes and to Businesses of Different Sizes* section of this evaluation, 93% of businesses in the assessment area have annual revenues less than one million dollars. As a result, many of the loans to these borrowers have been for smaller dollar amounts than the commercial loans to borrowers located outside of the bank's assessment area. Several of the largest loans by dollar have been originated to businesses that are located outside of the bank's assessment area.

### ***Geographic Distribution of Loans***

The geographic distribution of the bank's loan originations is reasonable. The bank's loan originations in moderate-income census tracts appear low in the charts on the following page. However, the apparent low loan penetration can be explained by the following factors:

- C There are 19 financial institutions or branches of financial institutions located in the bank's assessment area. Ten of these are located in the moderate-income census tracts and enjoy the geographic advantage of being closer to borrowers and businesses located in these moderate-income census tracts.
- C The substantial majority of the bank's originations have been to borrowers and businesses located in the middle-income census tract in North Branch. This distribution is reasonable as it is concentrated around the location of the bank's one office. Fifty-nine percent of the residential real estate loans and 81% of the commercial loans originated within the assessment area were in this middle-income census tract.

<b>Residential Real Estate Loan Originations</b>			
<b>Income Level of Census Tract</b>	<b>Loans by #</b>	<b>Loans by \$</b>	<b>Owner-Occupied Households in Census Tracts</b>
<b>Moderate</b>	19%	20%	38%
<b>Middle</b>	81%	80%	62%

<b>Commercial Loan Originations</b>			
<b>Income Level of Census Tract</b>	<b>Loans by #</b>	<b>Loans by \$</b>	<b>Business Population</b>
<b>Moderate</b>	7%	4%	40%
<b>Middle</b>	93%	96%	60%

***Record of Compliance with Antidiscrimination Laws***

National bank examiners reviewed the loan rates of vehicle purchase loans originated between August 5, 1998 and March 31, 1999. These loans were reviewed on the basis of gender and revealed substantial compliance with the provisions of antidiscrimination laws and regulations. No practices were noted which were intended to discourage types of credit offered.

***Response to Complaints***

Community National Bank has not received any CRA complaints.